



WENDY L. WATANABE
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 7, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **PATHWAYS LA – A DEPARTMENT OF PUBLIC SOCIAL SERVICES
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM
PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a program and fiscal review of Pathways LA (Pathways or Agency), which covered a sample of transactions from Fiscal Year (FY) 2012-13. The Department of Public Social Services (DPSS) contracts with Pathways, a non-profit organization, to operate the CalWORKs Stage One Child Care Services (Stage One) Program, which helps families access immediate, quality, and affordable child care as they move through their Welfare-to-Work activities.

The purpose of our review was to determine whether Pathways appropriately accounted for and spent Stage One Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid Pathways a fixed monthly fee of \$500, and a negotiated monthly rate of \$160 per participant to fund Program operating costs. The contract requires the Agency to return or reinvest any unspent revenue. In addition, once a participant chooses a child care provider, Pathways develops a rate agreement, and pays the child care provider directly. DPSS reimburses Pathways for these costs at the rates specified in the contract. The rates vary based on the needs of the participant. DPSS paid Pathways approximately \$3.1 million during FY 2012-13. Pathways provides services to residents of the First, Second, Third, and Fifth Supervisorial Districts.

Results of Review

Pathways provided services to eligible participants, recorded and deposited DPSS payments timely, and Agency staff had the required qualifications. However, the Agency did not always comply with all of the County contract requirements. For example, Pathways:

- Did not appropriately allocate \$18,053 in shared non-payroll expenditures to the Stage One Program. The Agency also billed the Stage One Program for \$816 in unallowable equipment and gifts.

Pathways' attached response indicates that they reviewed and reallocated all shared expenditures charged to the Stage One Program during FY 2012-13, provided DPSS with supporting documentation, and will repay DPSS \$816 for the amount of the unallowable items billed to the Stage One Program noted in our review.

- Did not maintain a complete and accurate fixed assets and equipment list, did not conduct semi-annual inventories, and did not track the disposal of Stage One Program equipment. In addition, the Agency did not obtain approval from DPSS to dispose of any items purchased with Stage One Program funds, or return the items to DPSS as required.

Pathways' attached response indicates that they have implemented a new inventory and disposal system for Stage One Program equipment and will conduct semi-annual inventories as required. In addition, Pathways management indicated that they will obtain approval from DPSS to dispose of items purchased with Stage One Program funds, or return the items to DPSS as required.

- Inappropriately allocated \$3,446 in payroll costs for six employees who worked on County and non-County programs based on projected revenue, instead of actual hours worked as required.

Pathways' attached response indicates that they will use allowable methods to allocate payroll costs to the Stage One Program.

- Inappropriately billed \$4,181 as consultant expenditures on the Agency's FY 2012-13 close-out report for child care provider payments that DPSS disallowed in prior periods.

Pathways' attached response indicates that they will repay DPSS \$4,181.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Pathways and DPSS in December 2013. Pathways' attached response indicates agreement with our findings and recommendations. DPSS will work with Pathways to ensure that our recommendations are implemented.

We thank Pathways management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:AB:DC:AA:pn

Attachment

c: William T Fujioka, Chief Executive Officer
Sheryl L. Spiller, Director, Department of Public Social Services
Carla Buck, Board President, Pathways
Duane Dennis, Executive Director, Pathways
Public Information Office
Audit Committee

**PATHWAYS LA
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM
CONTRACT COMPLIANCE REVIEW
FISCAL YEAR 2012-13**

ELIGIBILITY

Objective

Determine whether Pathways LA (Pathways or Agency) provided services to individuals who met the CalWORKs Stage One Child Care Services (Stage One) Program eligibility requirements.

Verification

We reviewed the case files for 28 (10%) of the 283 participants who received services during May 2013 for documentation to confirm their eligibility for Stage One Program services.

Results

Pathways had documentation to support all 28 participants' eligibility for Stage One Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether Pathways provided the services required by their County contract and Stage One Program guidelines, and whether the Program participants and child care providers received the billed services.

Verification

We visited Pathways' service site and reviewed the case files for 28 (10%) of the 283 participants who received services, and 28 (12%) of the 226 child care providers who provided child care during May 2013.

Results

Pathways provided services in accordance with their County contract.

Recommendation

None.

STAFFING QUALIFICATIONS**Objective**

Determine whether Pathways' staff had the qualifications required by their County contract.

Verification

We reviewed the personnel files for seven (29%) of the 24 Pathways employees who worked on the Stage One Program.

Results

Pathways' staff had the qualifications required by their County contract.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether Pathways properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed Pathways' management, and reviewed their financial records and June 2013 bank reconciliations.

Results

Pathways properly recorded revenue in their financial records, deposited Department of Public Social Services (DPSS) payments into their bank account timely, and Agency management reviewed and approved monthly bank reconciliations.

Recommendation

None.

EXPENDITURES

Objective

Determine whether expenditures charged to the Stage One Program were allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed Pathways' personnel, and reviewed financial records for 26 non-payroll expenditures, totaling \$35,527, that the Agency charged to the Stage One Program during Fiscal Year (FY) 2012-13.

Results

Pathways inappropriately charged \$18,869 (53%) of the \$35,527 in non-payroll expenditures reviewed to the Stage One Program. Specifically, the Agency inappropriately:

- Allocated \$18,053 to the Stage One Program for shared expenditures based on projections and budgets, instead of using allowable methods based on actual conditions as required.
- Billed \$544 (100%) to the Stage One Program for three computer monitors that the Agency could not locate.
- Billed \$272 to the Stage One Program for unallowable gifts for a former employee.

Recommendations

Pathways LA management:

1. **Review and reallocate all shared expenditures charged to the Stage One Program during Fiscal Year 2012-13, provide the Department of Public Social Services with supporting documentation, and repay any overbilled amounts.**
2. **Ensure that all expenditures charged to the Stage One Program are allowable, properly documented, and accurately billed.**
3. **Repay the Department of Public Social Services \$816 (\$544 + \$272).**

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether Pathways' fixed assets and equipment purchased with Stage One funds were used for the Program, and were adequately safeguarded.

Verification

We interviewed Agency personnel, and reviewed the Agency's fixed assets and equipment inventory lists. We also performed a physical inventory of 13 items purchased with Stage One funds to verify the items exist and were being used as required.

Results

We noted significant weaknesses in Pathways' controls over fixed assets and equipment. Specifically, Pathways did not:

- Maintain a complete and accurate listing of fixed assets and equipment. Specifically, the three computer monitors noted above were not included on the Agency's inventory lists. In addition, we noted five computers that were being used by Stage One Program employees that were also not included in the inventory lists.
- Conduct a semi-annual inventory as required. Pathways management indicated that they had not conducted a complete inventory since March 2012.
- Track the disposal of fixed assets and equipment purchased with Stage One Program funds. In addition, the Agency also did not obtain approval from DPSS to dispose of any items, or return the items to DPSS as required.

Recommendations**Pathways LA management:**

4. **Develop and maintain a complete and accurate listing of fixed assets and equipment purchased with Stage One Program funds and conduct semi-annual inventories of fixed assets and equipment.**
5. **Develop procedures to track the disposal of fixed assets and equipment purchased with Stage One Program funds.**
6. **Obtain approval from the Department of Public Social Services to dispose of any fixed assets or equipment purchased with Stage One Program funds, or return them to the Department of Public Social Services as required.**

PAYROLL AND PERSONNEL**Objective**

Determine whether Pathways charged payroll costs to the Stage One Program appropriately, and maintained personnel files as required.

Verification

We traced the payroll costs for seven employees, totaling \$5,769, for May 2013 to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for seven Pathways Stage One Program staff.

Results

Pathways inappropriately allocated \$3,446 (60%) of the \$5,769 in payroll costs reviewed to the Stage One Program. Specifically, Pathways allocated the payroll costs for six employees who worked on County and non-County programs based on projected operating revenue, instead of actual hours worked as required.

Recommendation

Refer to Recommendations 1 and 2.

COST ALLOCATION PLAN**Objective**

Determine whether Pathways prepared their Cost Allocation Plan (Plan) in compliance with their County contract, and used the Plan to allocate shared costs appropriately.

Verification

We reviewed Pathways' Plan, and a sample of expenditures from FY 2012-13.

Results

Pathways did not prepare their Plan in compliance with their County contract. For example, the Agency's Plan indicated shared payroll costs would be allocated based on the percentage of time each employee spends working on each program. However, the employee timecards do not track the hours worked by program. As a result, the Agency inappropriately allocated shared expenditures to the Stage One Program based on budgets and projections as discussed earlier.

Recommendations

Refer to Recommendations 1 and 2.

- 7. Pathways LA management develop a Cost Allocation Plan that complies with their County contract.**

CLOSE-OUT REVIEW**Objective**

Determine whether Pathways had any unspent revenue for the Stage One Program for FY 2012-13.

Verification

We traced the total revenues and expenditures from Pathways' FY 2012-13 close-out report to the Agency's accounting records, and to DPSS' payment records.

Results

Pathways received \$3,085,356 from DPSS for the Stage One Program for FY 2012-13. However, the Agency's expenditures totaled \$3,053,649 which resulted in \$31,707 (\$3,085,356 - \$3,053,649) in unspent Program funds. In addition, we noted Pathways inappropriately rebilled DPSS \$4,181 for consultant expenditures during FY 2012-13 that the Agency billed as child care provider payments that DPSS disallowed in prior periods.

The Agency needs to revise their accounting records based on our recommendations above, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue.

Recommendations**Pathways LA management:**

- 8. Revise their accounting records based on the recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.**
- 9. Repay the Department of Public Social Services \$4,181 for the disallowed child care provider payments.**



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January 14, 2014

*Wendy Watanabe, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, Ca 90071*

Ref: Pathways Stage One Child Care Services Program

Dear Ms. Watanabe:

We have reviewed your audit report and have determined that your findings are reasonable and accurate. Below you will find our responses and corrective action plans for the findings/recommendations outlined in the audit report.

- 1. We reviewed and reallocated all shared expenditures charged to the Stage One Program during Fiscal Year 2012-13 using allowable methods. We submitted the supporting documentation and will pay back the Department of Public Social Services (DPSS) the amount we over-allocated to the Stage One Program. As of February 1, 2014, Pathways will implement a new time keeping system and will allocate shared payroll cost using allowable methods.*
- 2. We are reviewing and ensuring that any cost charged to Stage One is reasonable and accurate as of July 1, 2013.*
- 3. We agreed to credit the amount of \$272 to Stage One, this entry has already been adjusted to the year end closing. (JE 05-37D). The 3 monitors we purchased for \$544 have been accounted for and have been inventoried with the following tag (bar codes) numbers 4065, 4077 and 4084.*
- 4. The new inventory/tracking system was implemented on October 15, 2013. All computer equipment is now property tagged/bar coded. We will conduct semi - annual inventory in January and July.*
- 5. Procedures to track the disposal of Fixed Assets have already been established.*

6. *Pathways will send the list of disposal equipment to DPSS.*
7. *Pathways developed a Program Cost Allocation Plan which will be effective on February 1, 2014.*
8. *We have revised our records and have determined that \$1,261.62 is owed to DPSS. We will issue payment to DPSS on January 24, 2014.*
9. *We agree to pay DPSS the amount of \$4,181, the check will be processed on January 24, 2014.*

If you have any questions, please contact me at (213) 427-2700.

Sincerely,



*Duane Dennis
Executive Director*